

**SPECIAL SESSION  
January 30, 2002**

The Board of Supervisors of Maricopa County, Arizona convened at 9:00 a.m., January 30, 2002, in the Tom Sullivan Conference Room, Tenth Floor, 301 W. Jefferson, Phoenix, Arizona, with the following members present: Don Stapley, Chairman; Fulton Brock, Vice Chairman; Andy Kunasek, Jan Brewer, and Mary Rose Wilcox. Also present: Fran McCarroll, Clerk of the Board; Jessie Burning, Administrative Coordinator; David Smith, County Administrative Officer; and Paul Golab, Deputy County Attorney.

**PRESENTATION AND DISCUSSION: NATIONAL AND LOCAL ECONOMIC UPDATE AND FORECAST – ELLIOT POLLACK & COMPANY**

Office of Management and Budget – Presentation of the economic forecast for Maricopa County by Elliot Pollack. Elliot Pollack & Company has been under contract for use in development of the long-range financial forecast for the County. The presentation will be an update of the national and local economic factors that impact the County's revenues. (C49020318)

Elliot Pollack, Elliot Pollack & Company, began today's discussion on the current recession, noting that the immediate recovery will be modest. Due to the structure of Maricopa County, it's anticipated that the County will lag in its recovery. Calendar year 2002 will be the flip-side of 2001; a weak first half of the year with a much stronger second half. The good news is that recessions normally don't last very long, the average is between 6 and 16 months. Mr. Pollack presented a chart outlining this history starting in 1948.

The start of the recession period was evident about 10 months ago and should begin to turn around in the second to third quarter. Mortgage rates are incredibly low by historic standards, which keeps housing affordable. With previous recessions, declines were clearly evident in housing; there has been no decline in housing with the current recession. Recent refinancing activity has kept consumer spending strong. Retail gas prices have declined significantly from where the prices were a year ago. Each cent saved adds about a billion dollars in purchasing power to consumers' pockets, which is quite significant.

Leading U. S. indicators have turned upward. Consumer confidence is also up at 97%. Savings rates have not moved up significantly and are a concern for a great number of consumers that have utilized their savings during this recession period. The unemployment rate has moved up considerably. The good news is that unemployment claims have clearly passed their peak and are now moving down. Job fears should start to calm, but total hours worked are still negative. The picture for consumers appears to be mixed, things are turning around, but there is still a ways to go.

The business picture has its own problems, industrial production is very low and capacity utilization is the lowest it has been since 1983. When business starts to pick up production, it will happen with the existing capacity and machinery instead of adding new plant equipment. This will mean a lag in recovery as well. Many years ago business equipment related to large plant and production machines, now about 60% relates to software and other computer related equipment. With Y2K, virtually all business equipment was replaced about a year and a half ago with new equipment that still has a three to four year life-cycle. Realistically, no one can expect much in new business purchases until 2003 or 2004.

Government is working to keep the economy strong. The money supply is high, which is why there have not been any credit card "crunches" in the cycle. In addition, \$40 billion in emergency aid and \$70 billion in tax-cuts are scheduled to take place this year. If there should be an economic stimulus package it will be centered more on business than consumers. Mr. Pollack added that there are 40 other states throughout the country with the same problems that Arizona is experiencing. In addition, it's not only the United States

but the entire world. Virtually every country's economy is weak, and the recoveries this year will be fairly small. Next year will reveal more recovery world-wide. The bottom line is weak consumer spending, however, it's starting to rise. Business, especially high-tech is declining, but the long-term outlook remains good.

For Arizona, the U. S. economy is negative; trade employment growth will be slow; the service sector, especially tourism and business services, have been especially weak. The construction cycle is expected to be weaker this year than last year. Recovery in unemployment is expected to appear in 2003.

Manufacturing is weak and commercial construction will slow down significantly. Housing construction is also expected to slow. Although construction was up last year, by December it was declining at a rate of 5% per month. Trade employment during recessions weakens considerably, and available jobs have declined but there are expectations for a modest recovery. Retail sales revealed one of the weakest years on record with only a modest increase of 1.6% through November. Most retail sales were from automobiles. For the first time ever, the service sector showed a decline last year and is still declining at a rate of 4% per month.

Trade employment will recover, but very slowly. Population growth in Maricopa County will be slow with increases in the second half of the year. Since there was not a significant decline in housing or auto sales, (which are usually the two things that will kick an economy out of recession) these factors cannot be expected to trigger a recovery. Again, the rate of growth will start to increase in the second half of the year. Fiscal year 2003, will look much better than fiscal year 2002, however, it won't feel as robust when given the fact that the economy is coming out of recession.

Chairman Stapley asked how the continuing global war efforts would affect the local economy. In response, Mr. Pollack pointed out that Tucson would benefit due to their cruise missile manufacturing. He doesn't see it as a major positive for the economy.

Chairman Stapley also pointed out that in his opinion housing and construction around the valley, has not evidenced a slow down.

Mr. Pollack emphasized that it was a record year for construction and housing. He added that the building trend has amazed him as well. There are four factors to consider with housing: population flows must remain strong; lower interest rates allow more people to purchase homes; houses are considered a better investment than the stock market; and individuals new to the area range in age 45 to 64 and have a tendency to live in houses rather than apartments. By far the most significant factor is population flow, which had to be very strong to absorb 36,000 houses last year. Historically, lags will start as word spreads that you can move to Phoenix, but there are no jobs available there.

Chairman Stapley asked what housing starts might look like for this year. In response, Mr. Pollack stated that housing construction is already down about 15% to 20%. The decline, by historic standards is pretty modest; declines usually occur during a recession not following one.

Chairman Stapley asked Mr. Pollack to help the Board in understanding the lag the County is experiencing in regards to property valuation and tax collections.

Mr. Pollack noted that the normal lag time for real estate was 18 months. It pertains not only to property valuations, but to new construction as well. The decline in 2002, will show up in 2004. Presently, the area is still benefiting from the housing-boom that occurred in 2000.

**GREATER PHOENIX FORECAST  
2001 – 2003**

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Population	3.6%	2.7%	2.6%
Employment	0.7%	1.0%	3.1%
Housing Permits			
Single Family	31,029	26,257	27,871
Multi-Family	7,263	5,781	5,594
Personal Income	5.4%	5.5%	6.4%
Retail Sales	2.0%	4.6%	5.8%

Source: AZ DES; AZ Dept of Revenue; Greater Phoenix Blue Chip

Supervisor Brock pointed out that with a City the size of Phoenix there should be more opportunity to attract larger corporations. He also asked how the County might attract the larger corporations in the future.

Mr. Pollack explained that it is possible to divide the world into export-related companies with demand outside of Maricopa County and domestic-sector companies with demand within Maricopa County. People reside in the area because Motorola and Intel are based here, residency is not based on Dilliard's or Macy's. However, retail is here because of the large number of employees at Motorola and Intel. The area would benefit from jobs that bring money into the area from the outside, such as locally-based headquarters. Export-related jobs tend to have above average wages and are essentially very high quality jobs. It is difficult to attract home offices or publicly held companies/corporations because they normally do not relocate. However, when companies decide to move headquarters it's usually to be more centrally located. Mr. Pollack felt that Phoenix did not do enough marketing in this area.

Mr. Pollack emphasized that the most desirable of companies are export-related. The available positions should be above average jobs such as, high-tech manufacturing, bio-tech, and computer software. Additionally, the area needs to market itself and do more research in determining which companies to attract.

Supervisor Wilcox asked if migrant or undocumented workers were figured into the analysis of current employment figures. She mentioned that in her district where there is a higher population of Hispanics, employment numbers seem to be even lower for the undocumented. Mr. Pollack stated that he has not seen any statistics regarding that issue. In his view, migrant workers could be considered the underground economy, where, in some instances, workers are paid cash without documentation.

Tom Manos, Chief Financial Officer, asked if the last estimate received on sales tax growth was still between 0 and 2%. Mr. Pollack said that was still the most current estimate, and hopefully sales will turn from automobiles to regular retail sales.

**MARICOPA COUNTY BOARD OF SUPERVISORS MINUTE BOOK**

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Chris Bradley, Budget Manager, Office of Management and Budget, pointed out for the Board that Mr. Pollack's figures are consistent with the information provided from the January 14<sup>th</sup> presentation regarding the revenue forecast for next year.

Norm Hintz, Director, Facilities Management, asked Mr. Pollack about the best time to award a multi-million dollar construction contract in order to receive the best price. Mr. Pollack stated that near the end of the second quarter contractors will realize that contract opportunities are very limited, which should motivate them to sharpen their pencils. The best time to award contracts is when the economy is weaker.

Supervisor Kunasek mentioned areas of employment such as detention officers, that are normally hard to fill and maintain. He asked if it would be wise to include a retention package with employment, to encourage new hires with an established incentive package. Mr. Pollack stated that now would be the time to incorporate such a package, however, the benefit received from employment incentives must be timely spaced to keep the new employee from collecting too soon and then vacating the position.

Supervisor Brock commented on the positive feedback regarding the County from Governing Magazine. He asked if the County was doing enough with all the challenges at hand.

Mr. Pollack stated that the County has received the best information available; when forecasting the future there is always uncertainty. He added that the County had done a better job of revenue forecasting than the State.

Supervisor Brock commented on his concerns with the County's healthcare system. He also mentioned a discussion with Mark Hilliard, Director, Maricopa Integrated Health System, who said that Maricopa is the only County in the Country who receives little to no reimbursement from the Federal Government. Supervisor Brock also pointed out that seven out of ten doctors trained through the County Hospital without government aide will eventually relocate.

**MEETING ADJOURNED**

There being no further business to come before the Board, the meeting was adjourned.

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Don Stapley, Chairman of the Board

ATTEST:

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Fran McCarroll, Clerk of the Board